

the  
edge, yet still  
tax returns or  
loss as a result of his

Coil, of Highland Village, his  
"Mr. D" and "Dave Smith") of San Juan,  
guilty to making false statements on his 1999  
reported his true taxable income for calendar year  
not earned \$196,000 from rental income as stated in the  
tax returns. The income was unlawfully assigned to him by his father, John Kenneth Coil.  
Charles Phelps was found guilty to one count of conspiracy to defraud the IRS. According to court  
documents, in 2002, Charles Phelps, Jr. enlisted the assistance of his son, 23-year-old  
Charles Phelps, of San Juan, Texas, and others in concealing from the IRS approximately  
\$400,000 in income derived from AVE, Inc. and Adjust, Inc., companies he co-owned with John  
Kenneth Coil. On April 16, 2004, Charles Joseph Phelps pled guilty to two counts of knowingly  
providing false information to the IRS.

**John Kenneth Coil, et al. guilty pleas release**  
**June 14, 2004**  
**Page 2**

On May 21, 2004, John Kenneth Coil's wife, 42-year-old Paula Katherine Coil, of Flower Mound, Texas, pled guilty to making fraudulent and false statements on the Coil's 1999 joint income tax return. According to court documents, the Coil's failed to report over \$300,000 in income.

On March 18, 2004, John Kenneth Coil's daughter, 35-year-old Katherine Dagnino of Dallas, Texas, pled guilty to conspiracy to defraud the Internal Revenue Service. According to court documents, Dagnino, as trustee of the childrens' trust, concealed and disguised over \$500,000 of her father's assets.

On June 10, 2004, John Kenneth Coil's business associate and employee, 57-year-old Curtis Wayne Castro, of Dallas, Texas, pled guilty to income tax evasion. Castro failed to report on his 1995 income tax return \$430,000 in income he received when he sold several adult bookstores to Coil's childrens' trust.

On May 21, 2004, 51-year-old Rhonda K. Tegner, of Flower Mound, Texas, a bookkeeper for John Kenneth Coil and Charles Phelps, Jr., pled guilty to knowingly filing a fraudulent tax return. According to court documents, Tegner embezzled over \$47,000 from Coil and Phelps in 1997 and failed to report that income on her 1997 income tax return.

John Kenneth Coil faces up to ten years in federal prison; John Altaire Coil, up to three years in federal prison; each of the remaining defendants, up to five years in federal prison. All remain out on bond pending sentencing. Sentencing for John Kenneth Coil and Charles Phelps, Jr. is scheduled for August 26, 2004; the other defendants, August 11, 2004.

This case was investigated by the Internal Revenue Service - Criminal Investigation, Bureau of Immigration and Customs Enforcement, Dallas County District Attorney's Office and the Austin Police Department. Assistant United States Attorney Mark Marshall, Special Assistant United States Attorney N. T. Gallagher of the Dallas County District Attorney's Office, D.O.J. Child Exploitation and Obscenity Division Attorney Ben Vernia and D.O.J. Senior Counsel Bruce Taylor are prosecuting this case on behalf of the government.

#####